

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2004.

## Principal activities

The Company acts as an investment holding company. The principal activities and other particulars of its principal subsidiaries are set out in note 14 on the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 11 on the financial statements.

## Major customers and suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	26%	
Five largest customers in aggregate	72%	
The largest supplier		38%
Five largest suppliers in aggregate		68%

China Petrochemical Corporation ("Sinopec"), a controlling shareholder holding indirectly more than 70% of the Company's share capital, had beneficial interests in four of the five largest customers which accounted for approximately 53% of the turnover of the Group.

## Financial statements

The profit of the Group for the year ended 31 December 2004 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 18 to 53.

An interim dividend of HK\$1.5 cents per share (2003: HK\$1.5 cents per share) was paid on 28 September 2004. The Directors now recommend the payment of a final dividend of HK\$1.5 cents per share (2003: HK\$1.5 cents per share) in respect of the year ended 31 December 2004.

## Share Capital

Details of the share capital of the Company during the year are set out in note 25 to the financial statements.

## Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

## Transfer to reserves

Profits attributable to shareholders, before dividends, of HK\$154 million (2003: HK\$139 million) have been transferred to reserves.

## Fixed assets

During the year, the Group spent approximately HK\$145 million on constructing storage and conveyance jetty facilities situated in the People's Republic of China (the "PRC"). The Group also acquired other assets at an aggregate cost of approximately HK\$84 million for business expansion. Details of movements in fixed assets are set out in note 12 on the financial statements.

## Directors

The Directors during the financial year were:

### Executive directors

Yang Shu Shan, *Chairman*

Pan Xin Rong, *Deputy Chairman*

Zhu Jian Min

(appointed on 30 March 2004 as non-executive director, redesignated as an executive director on 1 September 2004)

Zhou Feng

Ye Zhi Jun, *Managing Director*

Ge Han Hua

### Non-executive directors

Yang Mo Fei

### Independent non-executive directors

Wong Po Yan

Tam Wai Chu, *Maria*

Fong Chung, *Mark*

(appointed on 1 September 2004)

In accordance with Bye-law 111 of the Company's Bye-laws, Mr. Zhu Jian Min and Mr. Ge Han Hua will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Bye-law 115 of the Company's Bye-laws, Mr. Fong Chung, Mark will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

## Directors' service contracts

Mr. Yang Shu Shan, an executive Director, has entered into a service contract with the Company for a term of one (1) year commencing from 1 July 2001 renewable automatically for successive terms of one (1) year each commencing from the day after the expiry of the then current term of the appointment, unless terminated by not less than six (6) months' notice in writing served by either party. Mr. Yang is entitled to HK\$1,530,000 as director's remuneration annually.

Mr. Pan Xin Rong, an executive Director, has entered into a service contract with the Company for a term of one (1) year commencing from 30 March 2004 renewable automatically for successive terms of one (1) year each commencing from the day after the expiry of the then current term of the appointment unless terminated by not less than three (3) months' notice in writing served by either party. Mr. Pan is entitled to HK\$1,080,000 as director's remuneration annually.

### Directors' service contracts (Continued)

Mr. Zhu Jian Min, an executive Director, has entered into a service contract with the Company for a term of one (1) year commencing from 1 September 2004 renewable automatically for successive terms of one (1) year each commencing from the day after the expiry of the then current term of the appointment unless terminated by not less than three (3) months' notice in writing served by either party. Mr. Zhu is entitled to HK\$980,000 as director's remuneration annually.

Mr. Zhou Feng, an executive Director, has entered into a service contract with the Company for a term of one (1) year commencing from 30 March 2004 renewable automatically for successive terms of one (1) year each commencing from the day after the expiry of the then current term of the appointment unless terminated by not less than three (3) months' notice in writing served by either party. Mr. Zhou is entitled to HK\$980,000 as director's remuneration annually.

Mr. Ye Zhi Jun, an executive Director, has entered into a service contract with the Company for a term of one (1) year commencing from 28 March 2002 renewable automatically for successive terms of one (1) year each commencing from the day after the expiry of the then current term of the appointment unless terminated by not less than three (3) months' notice in writing served by either party. Mr. Ye is entitled to HK\$880,000 as director's remuneration annually. He is also provided with rent-free staff quarters by the Group.

Mr. Ge Han Hua, an executive Director, has entered into a service contract with the Company for a term of one (1) year commencing from 30 March 2004 renewable automatically for successive terms of one (1) year each commencing from the day after the expiry of the then current term of the appointment unless terminated by not less than three (3) months' notice in writing served by either party. Mr. Ge is entitled to HK\$480,000 as director's remuneration annually. He is also provided with rent-free staff quarters by the Group.

Apart from the remuneration mentioned above, the executive Directors are also entitled, on completion of every 12 months of service (for Messrs Pan, Zhou and Ge, who were appointed on 30 March 2004, and for Mr Zhu, who was re-designated on 1 September 2004, after 31 December 2004), to a management bonus of a sum at the discretion of the Directors provided that the aggregate amount of management bonuses payable to all Directors shall not be more than 5 per cent. of the audited consolidated or combined net profit of the Company (after taxation and minority interest but excluding extraordinary items and the payment of such bonus) in respect of that financial year of the Company. The executive Directors may not vote on any resolution of the Directors regarding the amount of the management bonus payable to them.

Mr. Yang Mo Fei, a non-executive Director, has been appointed for a term of three (3) years commencing from 30 March 2004 which is automatically renewed upon expiry for successive terms of one year. Mr. Yang is not entitled to director's emolument.

Mr. Wong Po Yan and Ms. Tam Wai Chu, Maria were appointed as independent non-executive Directors since 25 March 1998 for a term of three (3) years. Their appointments have been extended from 25 March 2004 for a further term of three (3) years. Each of Mr. Wong and Ms. Tam is entitled to HK\$180,000 as director's remuneration annually.

Mr. Fong Chung, Mark was appointed as an independent non-executive Director since 1 September 2004 for a term of three (3) years. Mr. Fong is entitled to HK\$180,000 as director's remuneration annually.

No directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

### Directors' and chief executive's interests in shares

None of the Directors and Chief Executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares of the Company, any of its holding companies, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

### Share option scheme

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 27 May 1999 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 26 May 2009. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time. The number of shares in respect of which options may be granted to any individual in aggregate is not permitted to exceed 25% of the shares of the Company in issue and which may fall to be issued under the Scheme at any point in time.

Options granted must be taken up within 21 days from the date of grant upon payment of HK\$1.00. Options may be exercised at any time from the date of acceptance of the grant of the share option to the earlier of the date on which such options lapse under early termination and the 10th anniversary of the date of grant. The exercise price is determined by the Directors of the Company, and will not be less than the higher of the nominal value of the shares and 80% of the average closing price of the shares for the five business days immediately preceding the date of grant.

No options were granted under the Scheme since its inception.

### Directors' right to acquire shares or debentures

At no time during the year was the Company, any of its holding companies, subsidiaries, or fellow subsidiaries a party to any arrangement to enable the Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### Connected transactions

Save as disclosed in note 30 on the financial statements, there were no transactions which need to be disclosed as material connected transactions in accordance with the requirements of the Listing Rules.

The Company has obtained a waiver from strict compliance with the requirements of Chapter 14 of the Listing Rules in respect of the ongoing connected transactions being the services and facilities in relation to the Huizhou Jetty, the supplies of petroleum products to the Kantons Petrol Station, the crude oil supply and sourcing, petroleum and petrochemical products trading and the third party processing of crude oil (the "Existing Ongoing Connected Transactions"), which waiver expired on 24 June 2002 and of which the Company had applied for and was granted a new waiver for three financial years ended 31 December 2004 subject to certain waiver conditions as stipulated in paragraphs 1 to 6 of the section headed "Application for Waiver" in the circular of the Company dated 27 August 2002 (the "Circular").

The Company announced on 23 February 2005 and dispatched a circular to the shareholders on 16 March 2005 to convene a special general meeting of the Company on 1 April 2005 to approve, confirm and ratify the Existing Ongoing Connected Transactions from 1 January 2005 to 31 December 2007 for a term of 3 years.

## Connected transactions (Continued)

The Company has also obtained a waiver on the other connected transactions from strict compliance with the relevant requirements under Chapter 14 of the Listing Rules by the Stock Exchange on 25 June 1999 for a period so long as the value of the relevant connected transaction in any financial year does not exceed 3% of the net tangible assets of the Group as at the end of that year subject to certain waiver conditions as stipulated in paragraph (D)(I) of “Conditions to waiver” in the section headed “Business – Connected Transactions” in the prospectus of the Company dated 15 June 1999.

The independent non-executive Directors of the Company have confirmed that the connected transactions referred to in note 30(a) on the financial statements (including the Existing Ongoing Connected Transactions) have been entered into in the manner as stipulated in paragraph (D)(I) of “Conditions to waiver” in the section headed “Business – Connected Transactions” in the prospectus of the Company dated 15 June 1999 and in paragraphs 1 to 6 of the section headed “Application for Waiver” in the Circular (collectively the “Waiver Conditions”). The Directors of the Company are of opinion that the above connected transactions have been entered into in the manner as stipulated in the Waiver Conditions.

## Substantial shareholders

As at 31 December 2004, the register of interest in shares required to be maintained under Section 16(1) of the SDI Ordinance showed that the following shareholder had an interest of 5% or more in the issued share capital of the Company.

	<b>Ordinary shares held</b>	<b>Approximate percentage of issued shares held</b>
Sinopec Kantons International Limited	750,000,000	72.34%

*Note:* The entire issued share capital of Sinopec Kantons International Limited is held by China Petrochemical International Co. Ltd. (“CPIC”). The entire registered capital of CPIC is owned by China Petroleum & Chemical Corporation (“CPCC”). The controlling interest in the registered capital of CPCC is held by China Petrochemical Corporation.

Other than as disclosed above, the Company has not been notified of any other interests representing 5% or more of the Company’s issued share capital as at 31 December 2004.

### Directors' interests in contracts

No contracts of significance to which the Company, its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

### Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### Purchase, sale or redemption of the Company's listed securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

### Bank loans and other borrowings

Particulars of bank loans and other borrowings of the Company and of the Group as at 31 December 2004 are set out in notes 20 and 21 on the financial statements.

### Five year summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 54 of the annual report.

### Retirement scheme

Other than operating a Mandatory Provident Fund Scheme and payments made to the PRC state-managed retirement benefits schemes, the Group has not operated any other retirement scheme to cover the Group's employees. Particulars of the retirement scheme is set out in note 23 on the financial statements.

### Compliance with the Code of Best Practice

The Company has complied throughout the year with the Code of Best Practice as set out by the Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rules 3.13 of the Listing Rules, the Company considers all of the independent non-executive directors are independent.

On 1 September 2004, an additional independent non-executive director was appointed to comply with Rules 3.10(1) and 3.21 of the Listing Rules with regards to the sufficient number of independent non-executive directors and to have three independent non-executive directors in the audit committee. One of the non-executive directors was re-designated to executive director on 1 September 2004.

### **Audit committee**

The audit committee of the Company was set up with written terms of reference. Currently, the audit committee comprises three independent non-executive Directors and reports to the board of directors. The audit committee meets with group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Group and reports directly to the board of Directors of the Company.

### **Auditors**

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the board

**Yang Shu Shan**

*Chairman*

Hong Kong, 18 March 2005